

FISCAL NOTE

Bill #: HB0663

Title: Create health care reserve fund - revise CHIP

Primary Sponsor: Caferro, M.

Status: As Introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund – Admin. Expenditures	\$75,699	\$71,963
General Fund – Transfer to Reserve Acct	\$1,128,934	
Federal Special Revenue	\$295,737	\$272,191
Revenue:		
General Fund		
State Special Revenue – Reserve Account	\$1,128,934	
Federal Special Revenue	\$295,737	\$272,191
Net Impact on General Fund Balance:	(\$1,204,633)	(\$71,963)

<input type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Health Resources Division:

1. This bill removes the authority to conduct the Children's Health Insurance Program (CHIP) through a contract with an insurance plan, health maintenance organization, or a managed care plan.
2. The bill does allow the Department of Public Health and Human Services (DPHHS) to contract with other entities to provide services for a set monthly or yearly fee based on the types of services provided or based on a fee for service as established by the department. The contracts must be similar to those used for administering the Medicaid program. The department may administer and supervise a vendor payment program for the benefits provided under Section 2.
3. CHIP is limited by federal regulation to an administrative expense of no greater than 10 percent for state administration, which allows 90 percent for program benefit costs. FY 2004 total CHIP benefits were \$13,294,606 resulting in an estimated total program expenditure of \$14,771,784 (\$13,294,606 / .90). The 10 percent limit results in an effective administrative cap of \$1,477,178 (\$14,771,784 x .10).

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4. To administer the program for \$1,477,178, the department may need to restrict administrative services to CHIP clients. The types and amounts of such reductions are not known at this time.
5. It is assumed that DPPHS will hire 5.00 FTE, three grade 16- program officers and two grade 15- program officers for program management, contract management, and audit functions. It is estimated that the personal services costs will be \$219,990 in FY 2006 and FY 2007.
 - a. 3.00 FTE grade 16 program officer at \$45,404 per FTE = \$136,212 per year
 - b. 2.00 FTE grade 15 program officer at \$41,889 per FTE = \$83,778 per year
6. The operating costs are estimated to be \$19,505 in FY 2006 and \$4,625 in FY 2007.
 - a. FY 2006 $\$14,880 + \$8,000 = \$22,880$
 - i. New employee office and computer equipment package of \$2,976 per FTE x five FTE = \$14,880
 - ii. General operating expenses (rent, phones, etc.) of \$1,600 per FTE x five FTE = \$8,000
 - b. FY 2007 \$8,000
 - i. General operating expenses (rent, phones, etc.) = \$8,000
7. Total estimated costs in assumptions five and six for FY 2006 are \$242,870 and for FY 2007 are \$227,990.
 - a. FY 2006 - $\$219,990 + \$22,880 = \$242,870$
 - b. FY 2007 - $\$219,990 + \$8,000 = \$227,990$
8. Contracted services are unknown at this time. These services include items such as claims processing, prior authorization, utilization review, case management, etc.
9. Total FY 2004 administrative costs for DPHHS were \$1,070,115. The estimated administrative cap for FY 2006 and FY 2007 (from assumption number four) is \$1,477,178. Ongoing personal services and operating costs along with the requested 5.00 FTE would be paid out of this administrative cap. The remaining estimated amount of \$164,192 in FY 2006 and \$179,072 in FY 2007 is available and stays within the 10 percent administrative cap for contracted services as necessary to self administer this program.
 - a. FY 2006 - $\$1,477,178 - \$242,870 = \$1,234,307 - \$1,070,115 = \$164,192$
 - b. FY 2007 - $\$1,477,178 - \$227,990 = \$1,249,187 - \$1,070,115 = \$179,072$
10. Other agency costs associated with this bill under Quality Assurance Division and the Director's Office are counted towards the 10 percent agency administrative cap. These costs are estimated to be \$88,838 in FY 2006 and \$76,432 in FY 2007, as shown in assumptions 14 through 26.
11. In Section 3 of the bill, it assumes a minimum reserve for the program must be established on an actuarially sound basis. It is assumed that an actuarially sound basis would be equal to five months worth of claims payments. CHIP is funded with 20.38 percent general fund and 79.62 percent federal funds.
12. For FY 2006, to create a reserve account based on five months of FY 2004 medical claims, a minimum amount of \$1,128,934 in general fund is needed in FY 2006. This is based upon 10,900 children enrolled.
 - a. 5 months of claims is $\$5,539,419 - \$13,294,606 / 12 \text{ months} = \$1,107,884 \times \text{five months} = \$5,539,419$
 - b. General fund portion of $\$1,128,934 - \$5,539,419 \times .2038 = \$1,128,934$
13. If the reserve account is depleted then it is unknown the length of time it would take to rebuild the reserve, or how this would be rebuilt.

Quality Assurance Division:

14. States are required to have a post-payment review process for Medicaid paid claims (42 CFR 456). DPPHS has a Surveillance/Utilization Review Section (SURS) within the Quality Assurance Division (QAD). SURS carries out the federally mandated program that performs retrospective reviews of paid

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claims. SURS is required to safeguard against unnecessary and inappropriate use of Medicaid services and against excess payments.

15. It is assumed that if the Department were to administer and supervise a vendor payment program for CHIP, as they currently do under Medicaid, a similar post-payment review process would be implemented. There are currently 12.00 FTE associated with the SURS function and approximately 110,646 Medicaid eligible clients compared to 10,900 CHIP eligible clients. It is estimated that QAD would hire 1.20 FTE grade 14 SURS claims review staff for CHIP post-payment review of paid claims.
 - a. $110,646 \text{ Medicaid eligible clients} / 12.00 \text{ FTE} = 9,220.50 \text{ clients per FTE}$
 - b. $9,220.50 \text{ clients per FTE} / 10,900 \text{ CHIP clients} = 1.20 \text{ FTE}$
 16. Personal services costs, including salary and benefits for these 1.2 claims review staff are estimated to be \$46,493 in FY 2006 and FY 2007 (grade 14 salary of \$38,744 x 1.20 FTE = \$46,493).
 17. In addition, the Department is required to implement a Medicaid Payment Error Rate Program (PERM) beginning October 1, 2005. PERM is a federal program that requires states to evaluate a sample of Medicaid and Children's Health Insurance Program (CHIP) claims with respect to two specific criteria: eligibility for services and the medical necessity for services received. Increased resources for PERM review are requested in the DPHHS budget for FY 2006 and FY 2007. However, under HB 633, the DPHHS would need additional resources to perform a medical necessity review for CHIP claims under the PERM mandate. PERM rules dictate that 800 to 1,200 CHIP claims per year be reviewed. Medical necessity reviews are estimated to require one hour per claim and must be performed by nurse level staff. It is estimated that this QAD will require a 0.50 grade 15 nurse level staff to perform this review.
 18. It is estimated that this 0.50 FTE nurse level staff will cost \$26,739 in FY 2004 and FY 2007.
 19. Operating costs for 1.70 FTE are estimated to be \$9,152 in FY 2006 and \$3,200 in FY 2007.
 - a. FY 2006 $\$5,952 + \$3,200 = \$9,152$
 - i. New Employee computer and office packages at $\$2,976 \times \text{two} = \$5,952$
 - ii. Supplies, rent and phones of $\$1,600 \times \text{two} = \$3,200$
 - b. FY 2007 Supplies, rent and phone of $\$1,600 \times \text{two} = \$3,200$
 20. It is assumed that if the Department were to administer a post-payment review process for CHIP, as they currently do under Medicaid, there would be an increase in the number of requests made to the Office of Fair Hearings within the Quality Assurance Division. Approximately nine SURS cases annually result in a request for a fair hearing. Based on the comparison of Medicaid caseload to CHIP caseload given above, it is estimated that only one CHIP post-payment review would result in a fair hearing request annually. Thus, the impact would be minimal and could be absorbed within existing resources.
 21. It is assumed that any recoveries will be returned to the general fund as happens with Medicaid. The rate of recovery is not estimated because there is no detail on the amount and type of payments to be made.
- Director's Office:**
22. As stated in Section 2 (4) of this legislation, administrative rules will be required to be written.
 23. The Department of Public Health and Human Services (DPHHS) will contract with the Department of Justice to develop and write these rules. The Department of Justice charges \$75 per hour for legal services.
 24. It is estimated that it will take 70 hours to develop and write the administrative rules associated with this legislation for a total cost of \$5,250 ($\$75 \times 70 \text{ hours}$).
 25. Proposed and adopted rules will be published by the Secretary of State in the Administrative Rules of Montana (ARM). The Secretary of State charges \$40 per page for printing in ARM.

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26. It is estimated that rule changes associated with this legislation will be approximately 30 pages. Total estimated cost for printing of rules related to this legislation is \$1,200 (\$40 x 30 pages).

Fiscal Services Division:

27. It is estimated that DPHHS will process 5,847 claims per month. It is further estimated that of these 5,847 claims, 4,121 will be paid by a check through the mail and 1,726 will be paid by Electronic Funds Transfer (EFT).

28. It costs the State of Montana \$0.17195 per warrant to issue a check and \$0.1539 to make an EFT. Total estimate cost to generate 4,121 warrants per month is \$709 (4,121 x \$0.17195). Total estimated cost to generate 1,726 EFT payments per month is \$266 (1,726 x \$0.1539).

29. Payments issued through a check will require that an explanation of payment be mailed with the payment. EFT payments receive just the explanation of payment. It is less expensive for DPHHS to pay for temporary services to combine the check and explanation of payment into one envelope than it is to mail both items separately. It is estimated that it will cost \$584 in staff and temporary services costs to stuff the envelopes containing the check payment and the explanation of payment to mail as one envelope.

30. It is estimated that costs to mail the checks and EFT advice will be \$1,752.

31. Total estimated costs for Fiscal Services Division to issue and mail payments and explanation of payments is \$39,732 in FY 2006 and FY 2007.

a. Issue payment - $\$709 + 266 = \975

b. Stuff envelopes - \$584

c. Mail payments and explanation of payments - \$1,752

d. Total monthly costs - $\$975 + \$584 + \$1,752 = \$3,311$

e. Total annual costs - $\$3,311 \times 12 \text{ months} = \$39,732$

32. It is assumed that the administrative costs included in this fiscal note will be paid at the CHIP Federal Medical Assistance Participation (FMAP) rate of 20.38 percent general fund and 79.62 percent federal funds in FY 2006 and 20.91 percent general fund and 79.09 percent federal funds in FY 2007.

FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
Health Resources Division:		
FTE	6.70	6.70
<u>Expenditures:</u>		
Personal Services	\$293,222	\$293,222
Operating Expenses	\$78,214	\$50,932
Transfer to establish reserve account	<u>\$1,128,934</u>	<u>\$0</u>
TOTAL	\$1,500,370	\$344,154
<u>Funding of Expenditures:</u>		
General Fund (01)	\$1,204,633	\$71,963
Federal Special Revenue (03)	<u>\$295,737</u>	<u>\$272,191</u>
TOTAL	\$1,500,370	\$344,154
<u>Revenues:</u>		
State Special Revenue (02)	\$1,128,934	

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Federal Special Revenue (03)	\$295,737	\$272,191
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(\$1,204,633)	(\$71,963)
State Special Revenue (02)	\$1,128,934	

TECHNICAL NOTES:

1. It is not clear whether the department may contract for administrative services from an insurer or a third party administrator.
2. The Centers for Medicaid/Medicare Services (CMS) looks at premiums to an insurance or managed care company as a benefit cost. Therefore the costs incurred by the insurance or managed care company for administration are not applied to the administrative cap. However, under a self-insured plan, all costs except payment of claims are applied to the administrative cap.